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SUBJECT: THREE STATE-OWNED ENTERPRISES FIND STRATEGIC PARTNERS

[11](#). (SBU) SUMMARY: Three cement plants in Iraq have found joint venture partners in consortia built in each case from different European firms joining with separate Iraqi partner companies. The deals are not final -- negotiations may take several more months -- and are to be developed around production-sharing contracts and equity investments, thus are not privatizations, in that the Ministry of Industry and Minerals retains ownership. But the consortia will be responsible for management, purchase of inputs and payment of employee salaries in exchange for a specified share of the physical output over a 10- to 15-year term. To make the deals work, each of the consortia must make substantial (multi-million dollar) investments in plant and equipment modernization. The production sharing model should allow the companies to recover that investment in 3-4 years. END SUMMARY

[12](#). (SBU) Minister of Industry and Minerals (MoIM) Fawzi Hariri told EMIN on January 9 that the Ministry was finalizing a short list of joint venture projects to be announced imminently. The Ministry had begun in May 2005 with basket of 13 state-owned companies thought to be able to generate operating profits if they could attract a strategic partner for a joint venture. The basket was culled after several meetings with prospective partners to four state-owned enterprises (SOEs) in the cement sector. Hariri reported to EMIN that a meeting in Jordan to finalize preliminary partnership agreements, to finish January 10, would likely settle on two, possibly three handshakes that would then proceed to negotiations for the final terms of the joint venture agreements.

THE COMPANIES

[13](#). (SBU) Per the Minister's information, it appears that cement plants in Al Anbar, Kirkuk (At Tamim), and Al Muthanna provinces are a step further toward productive joint ventures. Three consortiums are the "selectees". the first is a partnership between an Iraqi firm, Al Jawhara Al Khalijiyah, and a Romanian partner Uzen. They are to partner with the MoIM to restart the cement plant at Al Qa'im, at the Syrian border in Al Anbar. In Kirkuk it is a partnership among the Iraqi company Al Sharq Al Awsat and an unidentified German company. Last, in Al Muthanna, the partnership is between the German firm KHD and an Iraqi company called the Economic Group. While the Minister had briefed that different consortia seemed headed toward getting the nod in Al Muthanna -- he had pointed to a Swiss-led consortium -- and had expected a French firm to partner in Karbala, in the event Karbala seems to be left in the cold, and Al Qa'im -- initially thought to have been the hardest to move -- has found a suitor.

THE DEAL

[14](#). (SBU) Minister Hariri set out the essential terms of the joint ventures as follows: The strategic partner would enter into an agreement in which the financial benefit comes from a contract for a share of production -- these will NOT / NOT be deals in which the partner takes an equity position. The strategic partner could take up to 65% share of the production -- subject to negotiation -- with the Ministry retaining the balance. The life of the production

sharing contract would be 10 to 15 years.

¶5. (SBU) The strategic partner for its part would invest on the order of \$100 million in the SOE, the Minister said. The partner would also be responsible for employee salaries and -- critically -- company management. These terms as described are the framework for the deals. Once the announcement of the selectees is made, a negotiation process would begin, with the agreements to be finalized over the next several months. Minister Hariri said that the consulting firm of Grant-Thornton, part of DOD Deputy Under Secretary Brinkley's Task Force to Improve Business and Stability

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Operations in Iraq (TFBSO), is to provide legal technical assistance in the negotiations toward final contracts.

THE ANNOUNCEMENT

¶6. (SBU) The Minister said he expected the two, possibly three selectees to be determined at the end of the January 9-10 meeting in Jordan. He would present the joint venture concept to the Council of Ministers (CoM) on Monday, January 14, and make a formal announcement at a press conference the following Tuesday.

WHAT'S NEXT

¶7. (SBU) Minister Hariri said the next phase of his efforts to restructure the SOE sector would be to build another basket of target companies -- this time as many as 30 -- that may become attractive targets if they first were to receive an infusion of investment from the capital budget. He provided EMIN with a list of some 21 companies that were his priority recipients for up to \$300 mn in total capital investment in 2008 (emailed to NEA/I-ECON). He explained that, in deciding between whether to divide the \$300 mn

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evenly among provinces, or to focus funds on SOEs with greatest turn-around potential, his list reflects the latter option.

¶8. (SBU) Hariri said he was ready to issue 16 tenders just as soon as the CoR has approved the national budget. He has made it his goal to have all \$300 mn committed by August 31, in order to be well placed to request a budget supplemental for the SOE sector.

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